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FISCAL IMPACT STATEMENT

LS 6100

BILL NUMBER: HB 1067

NOTE PREPARED: Mar 26, 2013

BILL AMENDED: Mar 21, 2013

SUBJECT: Federal Fund Exchange Program.

FIRST AUTHOR: Rep. Cherry

FIRST SPONSOR: Sen. Wyss

BILL STATUS: As Passed Senate

FUNDS AFFECTED: X GENERAL
DEDICATED
X FEDERAL

IMPACT: State & Local

Summary of Legislation: The bill establishes the Federal Fund Exchange Program (Program) to allow a county or municipality that receives funds from the Federal Surface Transportation Program (STP) to exchange the federal funds at a rate of not less than \$0.75 of state funds for each \$1 of federal funds. The bill provides that the Indiana Department of Transportation (INDOT) shall administer the program.

Effective Date: July 1, 2013.

Explanation of State Expenditures: The bill will increase overall administrative costs for INDOT, including estimating fund availability, approval of projects funded through the Program, and entering into agreements with counties and municipalities. Additionally, the bill requires INDOT to report annually to the General Assembly on the Program.

According to the bill, INDOT may only enter into exchange agreements if the agreements are first approved by the Office of Management and Budget as well as the Office of the Attorney General. The approval of these exchange agreements by the Office of Management and Budget as well as the Attorney General are within the two agencies' routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

It is conceivable that the Program will reduce certain costs for INDOT associated with providing federal funds for local projects. Specifically, these costs include INDOT's responsibilities of project letting and oversight on federally funded local projects.

Ultimately, the size of the Program and the costs and savings are dependent on the local entities who participate as well as the projects undertaken under the Program. In order for local entities to participate, the executive of the local entity may enter into an exchange agreement only after it is first approved by the fiscal body of the entity. Additionally, local entities may only use state funds under the Program for capital projects that will fulfill the purpose of the original federal project award and that is approved by INDOT.

Background: INDOT provides a portion of the STP funds it receives to local units, paid by reimbursement of local expenditures. INDOT remains responsible for oversight of STP-funded local projects, including letting bids for the projects. In most cases, local units are required to utilize a construction engineer or inspector to provide documentation of expenditures in order to assure compliance with federal regulations. INDOT is held responsible for all federal funds utilized in local projects and must pay penalties if federal rules are not followed.

Under the Program, a county or municipality may enter into an agreement with INDOT to exchange STP funds for state funds at an exchange rate of not less than \$0.75 of state funds for every \$1 of STP funds. The local entity is still required to provide matching funds of 10% of the project cost, and INDOT will reimburse expenditures with state dollars. INDOT may then use the recaptured STP funds on presumably larger projects, which may reduce the overall administrative costs associated with the use of federal funds.

STP funds were apportioned for FFY 2013 (October 1, 2012, to September 30, 2013) by the latest transportation re-authorization bill known as Moving Ahead for Progress in the 21st Century Act (MAP-21). According to the Federal Highway Administration, Indiana was apportioned \$241.7 M in STP funds for FFY 2013, with slightly higher funding expected in FFY 2014. Typically, INDOT makes 25% of the federal funds apportioned to it available to local units.

Explanation of State Revenues: INDOT may receive a net increase in available transportation funds, as local entities who participate in the program will receive between \$0.75 and \$1 in state funds from INDOT for every \$1 in STP funds given to INDOT, thereby giving INDOT the opportunity for additional federal funds for any state funds that are exchanged. The total amount of additional revenue to INDOT is indeterminable at this time.

Explanation of Local Expenditures: Utilizing state funds instead of federal funds for local transportation projects may reduce project administration costs, due to the reduction in regulations on the use of the funds.

Explanation of Local Revenues: See *Explanation of State Expenditures*.

State Agencies Affected: Indiana Department of Transportation.

Local Agencies Affected: Counties; Municipalities.

Information Sources: Kansas Department of Transportation Bureau of Local Projects (<http://www.ksdot.org/burlocalproj/default.asp>); U.S. Department of Transportation Federal Highway Administration Notice 4510.759; Indiana Department of Transportation (<http://www.in.gov/indot/2390.htm>).

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